

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01

COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07 INT-05 L-03

NSAE-00 NSC-05 OMB-01 PM-04 USIA-06 SAM-01 OES-03

SP-02 SS-15 STR-04 TRSE-00 PA-01 PRS-01 SEC-01 /091 W

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R 160753Z MAR 76

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 3077

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E.O. 11652: NA

TAGS: EFIN, EINV, RP

SUBJECT: MARCOS ORDERS INCENTIVES FOR DOMESTIC AND FOREIGN
INVESTMENT

1. SUMMARY. REPORTS OF AN OIL STRIKE CAUSED HEAVY
TRADING AND LARGE PRICE FLUCTUATIONS, ESPECIALLY OF OIL
STOCKS, ON LOCAL STOCK EXCHANGES LAST WEEK. IN AN EFFORT
TO DAMPEN SPECULATION AND AT THE SAME TIME REASSURE FOREIGN
INVESTORS, MARCOS ANNOUNCED A SERIES OF MEASURES, SOME
NEW AND SOME NOT-SO-NEW, AFFECTING OPERATION OF STOCK
MARKETS AND REPATRIATION OF CAPITAL AND PROFITS. HE ALSO
TOUCHED ON SECRECY OF FOREIGN CURRENCY BANK ACCOUNTS AND
ON OFFSHORE BANKING FOR THE PHILIPPINES. END SUMMARY.

2. PRESIDENT MARCOS HELD A SUNDAY MEETING (MAR 15) WITH
SEVERAL GOVERNMENT OFFICIALS IN THE FINANCIAL AREA AND
A LARGE NUMBER OF MANILA STOCKBROKERS. THE MEETING WAS
INSPIRED BY RECENT FRENETIC ACTIVITY IN LOCAL STOCK MARKETS
ASSOCIATED WITH NEWS OF AN OIL STRIKE OFF PALAWAN.

ACCORDING TO MANILA DAILIES, MARCOS ANNOUNCED A SERIES
OF SIX MEASURES RELATING TO OPERATION OF THE MARKETS,

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SUMMARIZED AS FOLLOWS:

A. BANK DEPOSITS IN FOREIGN CURRENCIES BY FOREIGNERS OR FILIPINES WILL CONTINUE TO BE SECRET AND INVOLABLE. BULLETIN TODAY QUOTES MARCOS AS SAYING SECRECY WILL BE MAINTAINED"... NO MATTER WHAT THE PRESSURE WILL BE FROM ANY FOREIGN GOVERNMENT."

B. IMPOSITION OF A CAPITAL GAINS TAX ON STOCK TRANSACTIONS IS INDEFINITELY SUSPENDED, BUT A TRANSFER TAX OF ONE-FOURTH OF ONE PERCENT WILL REMAIN. (COMMENT: MARCOS HAD ANNOUNCED IN NOVEMBER 1975 THAT THE CAPITAL GAINS TAX, WHICH HAD BEEN SUSPENDED FOR SEVERAL YEARS, WAS TO BE REIMPOSED ON APRIL 30 ON A PROGRESSIVE BASIS. THE TAX HAS BEEN UNPOPULAR AMONG BROKERS, NOT ONLY BECAUSE OF ITS COST TO POTENTIAL INVESTORS, BUT BECAUSE OF THE RELUCTANCE OF INVESTERS TO OPEN THEIR BOOKS ON STOCK TRADING TO GOVERNMENT REVENUE AGENTS. THE INDEFINITE SUSPENSION OF THE TAX IS PROBABLY ONLY PARTIALLY RELATED TO RECENT DEVELOPMENTS, AND REPRESENTS A VICTORY FOR STOCK TRADERS, A DEFEAT FOR THE TECHNOCRATS WHO HAVE BEEN SEARCHING FOR ADDITIONAL SOURCES OF TAX REVENUE. END COMMENT.)

C. CONTINUATION OF A RULE FREEZING TRADE IN A PARTICULAR STOCK WHEN ITS FLUCTUATES BEYOND LIMITS OF 100 PERCENT UPWARD AND 50 PERCENT DOWNWARD.

D. CLOSURE OF THE EXCHANGES ON WEDNESDAY TO ALLOW BROKERS TO CATCH UP WITH BACKLOGGED PAPER WORK. THE RECORD TRADING VOLUMES OF LAST WEEK EXAGGERATED THIS PROBLEM.

E. ESTABLISHMENT OF A MECHANISM TO LIST SECURITIES FOR DIRECT TRADING IN FOREIGN CURRENCIES. THIS OBVIOUSLY IS A COMPLEX AREA, AND WILL NEED IMPLEMENTING ACTION BY THE SECURITIES AND EXCHANGE COMMISSION AND THE CENTRAL BANK.

F. OPERATION OF OFFSHORE BANKING. THIS IS A LONG-STANDING ISSUE, WITH THE COMMERCIAL BANKS AND CENTRAL LIMITED OFFICIAL USE

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BANK IN OPPOSITION, AND FINANCE SECRETARY VITATA IN FAVOR OF ESTABLISHING OFFSHORE BANKING. MARCOS HAS PREVIOUSLY MADE AMBIGUOUS STATEMENTS ON THIS SUBJECT, AND IT IS NO MORE CLEAR FROM NEWS ACCOUNTS WHAT HE MEANS NOW. CLARIFICATION OF WHETHER THERE IS TO BE REAL MOVEMENT MAY COME IN A FEW DAYS.

G. ASSURANCE OF THE FREE REMITTABILITY OF CAPITAL

AND PROFITS OF FOREIGN INVESTORS. THIS HAS BEEN A
CONFUSED SUBJECT IN RECENT DAYS. ON MARCH 11, THE CB
ISSUED A CSDCULAR WHICH REPORTEDLY (WE DO NOT YET HAVE
A COPY) SUSPENDED REPATRIATION GUARANTEES WITH RESPECT TO
INVESTMENTS IN LISTED SECURITIES ON THE STOCK EXCHANGES;
IT WAS BILLED AS A SAFEGUARD AGAINST FOREIGN SPECULATORS.
AT ITS MEETING ON MARCH 12, THE MONETARY BOARD AMENDED
THE CIRCULAR TO PERMIT REPATRIATION OF STOCK TRADING
PROFITS, EXCEPT FOR SPECULATIVE INVESTMENTS IN OIL STOCKS
AND NON-OPERATING MINING COMPANIES. MARCOS THUS
APPARENTLY MEANT TO RESTATE THE INTENT OF THE AMENDED
CIRCULAR-- TO PREVENT PRESSURE ON THE THIN AND VOLATILE
SPECULATIVE ISSUES, WHILE ASSURING INVESTORS OF THE
SAFETY OF THEIR LONGER-TERM INVESTMENTS. (COMMENT:
EMBASSY HAS NO INFORMATION THAT FOREIGN INVESTMENT HAS
BEEN A SIGNIFICANT FACTOR IN RECENT SPECULATIONS ON OIL
STOCKS.)

3. COMMENT: OIL FEVER HAS BEEN RUNNING HIGH, AND MARCOS
WAS AT PAINS TO WARN AGAINST SPECULATION BY THOSE
WHO CANNOT AFFORD IT AND WHO DO NOT KNOW WHAT THEY ARE
DOING. HE POINTED OUT THAT THIS IS THE TIME FOR "HARD,
STEADY INVESTMENTS." THE THRUST OF THE WEEKEND MEETING
IS TO CONVEY AN IMAGE OF STABILITY FOR THE PHILIPPINE
INVESTMENT CLIMATE, WITH A PARTICULAR NOD TO THE FOREIGN
INVESTOR. END COMMENT.
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